

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA

MANAGEMENT REPORT #09-005

YEAR ENDED DECEMBER 31, 2008

7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
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Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
#09-005

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Courtney Boyles, President
Board of Directors
7th DAA, Monterey County Fair
2004 Fairground Road
Monterey, CA 93940-5260

In planning and performing our audit of the financial statements of the 7th District Agricultural Association (DAA), Monterey County Fair, Monterey, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Monterey County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 7th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 7th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 7th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 7th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 7th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 7th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: salary overpayment, improper payment of employee vacation hours, employee time records, accounting for fixed assets, delegated & opportunity purchases, and standard agreements. We have provided ten recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 7th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

SALARY OVERPAYMENT

Upon reconciling the Fair's payroll records with civil service employee appointment records within CDFA's Human Resources Branch (HRB), our office noted an apparent \$5,454 salary overpayment for the period June 2007 to November 2009 for a permanent civil service employee.

According to CDFA's HRB records, the overpayment results from a change in job classification for which the employee received an inappropriate merit salary adjustment (MSA) on July 1, 2007. This employee was hired under a Temporary Authorization (TAU) appointment on June 1, 2006 and on June 15, 2007 the employee was appointed to permanent civil service position. Thus, this employee is entitled to an MSA effective June 1, 2008, which is 12 months after the permanent civil service appointment date. In addition, the Fair compensated the employee in excess of the employee's actual salary as stated on employee's Personnel Action Request (PAR). The Fair overpaid the employee \$544 for the period June 2007 to December 2007, \$1,973 in 2008, and \$2,937 for the period January 2009 to November 2009.

Recommendation

1. *The Fair should establish an accounts receivable and collect the \$5,454 salary overpayment made to the employee.*

IMPROPER PAYMENT OF EMPLOYEE VACATION HOURS

During 2008, the Fair allowed one employee to cash out 200 vacation hours to reduce the employee's balance below the 640 hours maximum limit. However, the State of California does not allow employees to cash out their leave balance unless authorized by the Department of Personnel Administration (DPA). According to the DPA, no civil employees are allowed to cash out their leave balance unless authorized by the DPA, with the exception of the DPA memo #2007-010 dated March 27, 2007 to allow a one-time maximum payout of 40 hours of buy back from vacation, annual leave, personal leave, and personal holiday credits. The Fair's accounting records show the 200 hours totaled approximately \$5,334.

Recommendation

2. *The Fair should establish an accounts receivable balance for this employee related to the \$5,334 of vacation leave that was improperly cashed out in 2008.*

EMPLOYEE TIME RECORDS

Based on our examination of employee files, payroll calculations, vacation/sick leave, and overtime records, as verified to time cards and Standard Form 634, Absence and Additional Time Worked Reports (Std. 634), revealed the following conditions:

- a. Our office noted a Fair employee earned annual leave of 15 hours per month and 8 hours of sick leave per month. According to DPA, the annual leave program provides eligible employees a combined pool of “annual leave” credits instead of separate vacation and sick leave credits. As a result, the employee incorrectly earned sick leave over the years and at the year-end 2008, contained a balance totaling 340 hours. In addition, the employee used 44 hours of sick leave that should not have been earned. Our office noted the Fair addressed this issue in 2009 by eliminating sick leave hours and by reducing 44 hours of annual leave.
- b. The Fair did not correctly adjust Account #245, Compensated Leave Liability, to reflect the appropriate dollar amount as compared to the employee leave balances at year-end. Our audit determined that the liability for compensated absences was overstated by \$4,762. The variances existed due to many errors made on the leave records and Std. 634. In addition, errors were made on permanent intermittent employee leave records. According to the Division of Fairs & Expositions Accounting Procedures Manual (APM), this balance should be updated annually prior to preparing the year-end financial records.
- c. The Fair employees did not always sign their time sheets to certify the reported hours worked for the pay period were accurate. In addition, a supervisor does not always sign and date the permanent and temporary employees’ timecards to approve and certify the hours were actually worked in a timely manner. Based on the analysis of Std. 634’s, we noted approximately eighty percent of the Std. 634’s did not always contain a supervisor and/or employee signatures. According to the APM Section 17.1, Time Sheets and Leave Records, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and time cards should show hours worked and leave taken.

Recommendations

3. *In future, the Fair should adhere to DPA policies regarding annual leave and should ensure sick leave balance is not earned by the employee earning annual leave hours.*
4. *The Fair should review employee leave balances at year-end to ensure that Account #245, Compensated Absence Liability, reflects the appropriate amounts.*
5. *The Fair should improve its controls over time card maintenance by reviewing and approving employees’ time worked in a timely manner, and ensuring that each employee signs their own respective timesheets.*

ACCOUNTING FOR FIXED ASSETS

The Fair has not taken corrective action for fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP). The following are findings noted during the audit:

- a. The Fair did not properly capitalize and depreciate fixed assets as required by generally accepted accounting principles (GAAP) and the CDFA Fixed Asset Policy

and Procedure Manual. Our office noted that the Fair did not record four projects at full cost. Based on the California Construction Authority (CCA) closed project reports, the Fair understated Account #192, Buildings and Improvement, and its overall net resources by \$491,984. In addition, the related Account #192.1, Accumulated Depreciation, was understated by \$98,397.

- b. The Fair's property ledger balance totaling \$4,102,101 did not agree to the general ledger and depreciation schedule balance totaling \$4,420,398 resulting in a variance of \$318,297. The Fair did not update the property ledger for 2007 and 2008 capital asset additions which were recorded in the general ledger and depreciation schedule. The property ledger is a subsidiary ledger, which maintains detailed fixed asset information to support the general ledger account balance and the depreciation schedule. Based on our examination, our office determined the property ledger to be incorrect and incomplete.
- c. Furthermore, the Fair did not adequately maintain the property ledger for account #193, Equipment. The property ledger balance totaling \$254,688, did not agree to the general ledger and depreciation schedule balance totaling \$259,751 resulting in a variance of \$5,063. This is the result of no adjustments posted to the property ledger since 2004. The variance is due to the property ledger containing three assets totaling \$55,890 which are not included in the general ledger balance and five assets totaling \$60,953 purchased for 2006 and 2007 that were included in the general ledger balance and not on the property ledger.

Recommendations

- 6. *The Fair should make the necessary correcting journal entries to ensure Account #192, Buildings and Improvements, is properly stated in the Fair's general ledger and property ledger. In the future, the Fair should review the CCA project closeout reconciliation prior to capitalizing an asset. This process will help ensure that the correct historical cost is reported in the Fair's general ledger.*
- 7. *The Fair should ensure that the property ledger, general ledger, and depreciation schedule agree at year-end by performing a year-end reconciliation. Any discrepancies should be researched and resolved prior to closing the accounting period and preparing the year-end accounting reports.*
- 8. *The Fair should make the necessary corrections to fairly state Account #193, Equipment, in the property ledger. In the future, the Fair should ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized and recorded in the property ledger in the year the equipment is acquired.*

DELEGATED & OPPORTUNITY PURCHASES

The Fair's compliance with State of California purchasing procedures was reviewed and our office noticed that the Fair did not comply with the APM when making opportunity purchases. Public Contract Code (PCC) Section 10321 states that local businesses often provide opportunity purchases to local Fairs that may be purchased locally at a price

equivalent to or less than that available through the state purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. Also, per APM Section 5.94, the Fair must demonstrate that an opportunity purchase meets or is better than the State price. This is a prior year audit finding.

Recommendation

9. *The Fair should follow PCC and the guidelines in the APM for claiming opportunity purchases, which require obtaining bids and documenting that the price for the opportunity purchase meets or is better than the state price.*

STANDARD AGREEMENTS

The Fair did not withhold 7% of the amount paid to nonresident individuals as required by the Franchise Tax Board (FTB). Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to non-residents unless the waiver is obtained from FTB. Our office noted two out-of-state contracts without 7% withholding. The FTB requires withholding of income or franchise tax on payments of California source income made to nonresidents of California unless the nonresident individuals present Form 590, Withholding Exemption Certificate, to the withholding agent.

Recommendation

10. *The Fair should ensure that 7% taxes are withheld on California source payments made to non-residents receiving payments greater than \$1,500 without Form 590 on file per the FTB requirements.*

NON-REPORTABLE CONDITIONS

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. The information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.

STANDARD AGREEMENTS

An examination of Fair's standard agreements and related procedures identified the following internal control weaknesses:

- a. The Fair did not always obtain bids for service contracts exceeding \$5,000. According to the APM, the Fair must obtain formal bids for those services that exceed \$5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.
- b. The Fair did not complete a Std 215 Agreement Summary for contracts over \$10,000 that should have been prepared on a Std 213 Agreement. The Std 215 Agreement Summary replaced the Std 15 Contract Transmittal and Pre-evaluation Form.
- c. The Fair did not have correct Contractor Certification Clause Forms (CCC 307) completed for service contracts entered into. Our office noted the Fair incorrectly used the outdated CCC 304 instead of the revised CCC 307. The CCC 307 form is required to be completed and signed for all service contracts.

Recommendations

The Fair should comply with the APM and obtain formal bids for those services that exceed \$5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.

The Fair should comply with the F&E Contract Manual by completing a Std. 215 Agreement Summary for all Std. 213 Agreements entered into.

The Fair should comply with the F&E Contract Manual by ensuring that Contractor Certification Clause forms are complete and signed for all service contracts.

ACCOUNTING FOR THE JUNIOR LIVESTOCK AUCTION

A review of the accounting for Junior Livestock Auction (JLA) revealed the following discrepancies:

- a. The Fair did not reconcile Account #251, Reserve for Junior Livestock Auction (JLA), to the corresponding bank Account #117, Cash-JLA. As a result, these accounts did not agree in the year-end financial records. According to the APM, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal Account #251, Reserve for JLA. This was a prior year audit finding
- b. The Fair made direct journal entries into account #251, Reserve for JLA. Only closing entries should be posted to the reserve account. There was no documentation or audit trail to substantiate the entries made. Furthermore, the Fair closed its JLA revenue and expenditure accounts prior to printing the pre-closing trial balance; the amounts directly entered into Account #251 do not agree to the amounts reported for JLA revenues and expenditures by the Fair on its 2008 Statement of Operations.

Recommendations

The Fair should comply with the APM and ensure that Account #117, Cash – JLA, plus any JLA accounts receivable agrees to Account #251, Reserve for JLA, plus any JLA liabilities. Furthermore, this reconciliation should be done on an annual basis prior to the Fair closing its books.

The Fair should endeavor to maintain a proper audit trail for its revenues and expenditures from JLA activities. Only closing entries should be posted to Account #251, Reserve for JLA, and the pre-closing trial balance should accurately reflect the reported amounts for JLA revenues and expenditures and should be printed prior to the accounts being closed.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



April 9, 2010

Mr. Ron Shackelford, CPA
Chief, Audit Office
State of California
Department of Food and Agriculture
2014 Capitol Avenue, Suite 107
Sacramento, CA 95811

Dear Ron:

The 7th D.A.A. is in receipt of management report 09-005. Please find below the response to the audit of financial statements of the 7th D.A.A., Monterey County Fair, for the year ended December 31, 2008.

SALARY OVERPAYMENT

The Fair has worked with CDFA Personnel on this matter. A Hiring Above Minimum Form was submitted to the appropriate Personnel Analyst prior to June 1, 2007 and was approved however this analyst is no longer working at Personnel and the appropriate back up material is unable to be located.

The Fair has established an accounts receivable and will collect the \$5,454 salary overpayment. The Fair has worked with CDFA Personnel to establish the correct salary amount for the employee and adjusted payroll accordingly.

IMPROPER PAYMENT OF EMPLOYEE VACATION HOURS

During 2008, the Fair allowed one employee to cash out 200 vacation hours to reduce the employee's balance below the 640 hours maximum limit. This was an error, and the Fair has established an accounts receivable balance for this employee in the amount of \$5,334.

EMPLOYEE TIME RECORDS

- a. The Fair has balanced out the employee's annual leave accounting and eliminated sick leave hours by reducing 44 hours of annual leave. This employee is now only receiving annual leave.
- b. The audit determined liability for compensated absences was overstated by \$4,762. The Fair hired a payroll auditor to review all 2009 leave balances for year ending 2009 to ensure that Account 245, Compensated Absence Liability reflected the appropriate amounts.

- c. The Fair has instituted oversight to ensure that all Std. 634's have been signed by both the employee and the supervisor.

ACCOUNTING FOR FIXED ASSETS

- a. The Fair did not record four projects at full cost from 2002-2004. The Fair has made the necessary correction journal entries to ensure that Account #192 is properly stated in the Fair's general ledger and property ledger. These have been updated and are reflected in the 2009 Statement of Operations.
- b. The Fair's property ledger balance did not agree to the general ledger and depreciation schedule balance. As of December 31, 2009 all property, general ledger and depreciation schedules are in balance.
- c. The #193 Equipment account was not in balance resulting in a variance of \$5,063. Adjustments have been posted to the property ledger and as of December 31, 2009 all are in balance.

DELEGATED AND OPPORTUNITY PURCHASES


The Fair will increase oversight for obtaining bids and documenting that the price for the opportunity purchase meets or is better than the state price.

STANDARD AGREEMENTS

The Fair did not withhold 7% of the amount paid to two out of state entertainers. The Fair will ensure that 7% taxes are withheld on California source payments made to non residents receiving payments greater than \$1,500.

Should you have any questions about the above, please contact me at 831-372-8106.

Sincerely,



Kelly Violini
CEO/Manager



Frank Devine
President, Board of Directors

Enclosure

Cc: Division of Fairs & Expositions

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 7th DAA, Monterey County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 9, 2009 and November 20, 2009. My staff met with management on November 20, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

November 20, 2009

REPORT DISTRIBUTION

| <u>Number</u> | <u>Recipient</u> |
|---------------|---|
| 1 | President, 7th DAA Board of Directors |
| 1 | Chief Executive Officer, 7th DAA |
| 1 | Director, Division of Fairs and Expositions |
| 1 | Chief Counsel, CDFA Legal Office |
| 1 | Chief, CDFA Audit Office |

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-005
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA
Hardeep Kaur

Audit Chief
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AUDIT REPORT NUMBER

#09-005

7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Courtney Boyles, President
Board of Directors
7th DAA, Monterey County Fair
2004 Fairground Road
Monterey, CA 93940-5260

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 7th District Agricultural Association (DAA), Monterey County Fair, Monterey, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 7th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 7th DAA, Monterey County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 7th DAA, Monterey County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-005, on the 7th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 7th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in black ink, appearing to read "Ron Shackelford", written in a cursive style.

Ron Shackelford, CPA
Chief, Audit Office

November 20, 2009

**7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

| | Account Number | 2008 | 2007 |
|---|---------------------------|----------------------------|----------------------------|
| ASSETS | | | |
| Cash & Cash Equivalents | 111 - 117 | \$ 162,599 | \$ 490,468 |
| Accounts Receivable, Net & Deferred Changes | 131&143 | 52,604 | 17,998 |
| Construction in Progress | 190 | 104,193 | 92,091 |
| Land | 191 | 31,340 | 31,340 |
| Buildings and Improvements, Net | 192 | 2,161,769 | 1,785,455 |
| Equipment, Net | 193 | 25,653 | 25,659 |
| TOTAL ASSETS | | <u>2,538,158</u> | <u>2,443,011</u> |
| LIABILITIES AND NET RESOURCES | | | |
| Liabilities | | | |
| Accounts Payable | 211-212 | 20,916 | 229,889 |
| Current Portion of Long Term Debt | 212.5 | 4,716 | - |
| Taxes Payable | 221 - 226 | 15,111 | 8,950 |
| Deferred Income | 228 | 27,071 | 30,884 |
| Compensated Absences Liability | 245 | 90,121 | 99,011 |
| Long Term Debt | 250 | 20,651 | - |
| Total Liabilities | | <u>178,586</u> | <u>368,734</u> |
| Net Resources | | | |
| Reserve for Junior Livestock Auction | 251 | 19,316 | 21,166 |
| Net Resources - Operations | 291 | 42,667 | 118,565 |
| Net Resources - Capital Assets, Less Related Debt | 291.1 | 2,297,588 | 1,934,546 |
| Total Net Resources Available | | <u>2,359,572</u> | <u>2,074,277</u> |
| TOTAL LIABILITIES AND NET RESOURCES | | <u>\$ 2,538,158</u> | <u>\$ 2,443,011</u> |

**7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

| | Account Number | 2008 | 2007 |
|---|---------------------------|----------------------------|----------------------------|
| REVENUE | | | |
| State Allocations | 311 | \$ 105,000 | \$ 105,000 |
| Other F&E & Capital Project Funds | 318-340 | 486,019 | 127,149 |
| Admissions | 410 | 269,596 | 275,569 |
| Commercial Space | 415 | 52,891 | 53,413 |
| Carnival | 421 | 133,098 | 119,666 |
| Food Concessions | 422 | 91,513 | 86,694 |
| Exhibits | 430 | 16,327 | 18,404 |
| Satellite Wagering | 450 | 450,573 | 444,644 |
| Miscellaneous Fair | 470 | 82,976 | 135,825 |
| JLA - Revenue | 476 | 35,877 | 65,843 |
| Non-Fair Revenue | 480 | 807,007 | 780,285 |
| Prior Year Adjustment | 490 | (8,651) | 65,455 |
| Other Revenue | 495 | 16,766 | 25,004 |
| Total Revenue | | <u>2,538,990</u> | <u>2,302,951</u> |
| EXPENSES | | | |
| Administration | 500 | 525,176 | 382,489 |
| Maintenance and Operations | 520 | 567,199 | 556,161 |
| Publicity | 540 | 90,789 | 136,637 |
| Attendance | 560 | 28,146 | 13,769 |
| Miscellaneous Fair | 570 | 66,062 | 94,779 |
| JLA - Expense | 576 | 37,727 | 88,041 |
| Premiums | 580 | 38,263 | 37,580 |
| Exhibits | 630 | 198,917 | 186,174 |
| Satellite Wagering Expense | 650 | 307,331 | 304,085 |
| Attractions - Fairtime | 660 | 225,023 | 194,726 |
| Equipment | 723 | 741 | 13,560 |
| Prior Year Adjustments | 800 | 11,380 | 11,617 |
| Cash Over/Short | 850 | (6,079) | 7,229 |
| Depreciation Expense | 900 | 163,019 | 112,398 |
| Total Expenses | | <u>2,253,694</u> | <u>2,139,245</u> |
| RESOURCES | | | |
| Net Change - Income / (Loss) | | 285,295 | 163,706 |
| Resources Available, January 1 | | 2,074,277 | 1,910,571 |
| Resources Available, December 31 | | <u>\$ 2,359,572</u> | <u>\$ 2,074,277</u> |

**7TH DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

| | <u>2008</u> | <u>2007</u> |
|--|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of Revenue Over Expenses (Expenses Over Revenue) | \$ 285,295 | \$ 163,706 |
| Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities: | | |
| (Increase) Decrease in Accounts Receivable & Deferred Charges | (34,607) | 17,160 |
| Increase (Decrease) in Accounts Payable | (208,973) | 102,895 |
| Increase (Decrease) in Current Portion of Long-Term Liability | 4,716 | - |
| Increase (Decrease) in Taxes Payable | 6,161 | 1,162 |
| Increase (Decrease) in Deferred Income | (3,813) | 20,097 |
| Increase (Decrease) in Guaranteed Deposits | 90,121 | (30,881) |
| Increase (Decrease) in Compensated Absence Liability | (78,360) | 27,739 |
| Total Adjustments | <u>(224,755)</u> | <u>138,172</u> |
| Net Cash Provided (Used) by Operating Activities | <u>60,540</u> | <u>301,878</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Increase) Decrease in Construction in Progress | (12,102) | (72,091) |
| (Increase) Decrease in Buildings & Improvements, Net | (376,313) | (138,583) |
| (Increase) Decrease in Equipment, Net | <u>7</u> | <u>10,268</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(388,409)</u> | <u>(200,406)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (Decrease) in Long-Term Liability | <u>-</u> | <u>-</u> |
| Net Cash Provided (Used) by Financing Activities | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | (327,869) | 101,472 |
| Cash at Beginning of Year | 490,468 | 388,996 |
| CASH AT END OF YEAR | <u><u>\$ 162,599</u></u> | <u><u>\$ 490,468</u></u> |

**7th DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 7th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Monterey County Fair each year in Monterey, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|-----------------------|-----------------------|
| Petty Cash | \$ 13,750 | \$ 5,181 |
| Cash in Bank - Operating | (23,205) | 16,452 |
| Cash in Bank - Premium | - | 2,478 |
| Cash in Bank - Payroll | (4,884) | (12,464) |
| Cash in Bank - JLA | 15,899 | 142,065 |
| Cash in Bank – Credit Card | 3,213 | - |
| Cash in Bank – LAIF | <u>157,826</u> | <u>336,756</u> |
| Total Cash and Cash Equivalents | <u>\$ 162,599</u> | <u>\$ 490,468</u> |

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|----------------------|----------------------|
| Accounts Receivable - Trade | \$ 67,356 | \$ 20,955 |
| Accounts Receivable - JLA | 3,417 | 5,070 |
| Returned Items | 478 | 5,070 |
| Allowance for Doubtful Accounts | <u>(18,125)</u> | <u>(8,092)</u> |
| Accounts Receivable - Net | <u>\$ 53,125</u> | <u>\$ 17,933</u> |

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|--------------------|--------------------|
| Building & Improvements | \$4,909,653 | \$4,336,914 |
| Less: Accumulated Depreciation | <u>(2,747,884)</u> | <u>(2,551,459)</u> |
| Building & Improvements - Net | <u>\$2,161,769</u> | <u>\$1,785,455</u> |
| Equipment | \$ 259,751 | \$ 254,544 |
| Less: Accumulated Depreciation | <u>(234,098)</u> | <u>(228,885)</u> |
| Equipment - Net | <u>\$ 25,653</u> | <u>\$ 25,659</u> |

NOTE 6**COMMITMENTS**

In 2008 the DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to purchase forklift. The terms of the agreement are as follows:

| | |
|-------------------------------|----------------|
| Loan Amount | \$25,367 |
| First Payment Date | December 2008 |
| Payment Amount | \$ 480 monthly |
| Duration of Loan | 5years |
| Interest Rate | 4.50% |
| Total Outstanding at 12/31/08 | \$25,367 |
| Current Portion at 12/31/08 | \$ 4,716 |
| Long-Term Portion at 12/31/08 | \$20,651 |

NOTE 7**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**7th DISTRICT AGRICULTURAL ASSOCIATION
MONTEREY COUNTY FAIR
MONTEREY, CALIFORNIA**

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